

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE NEBRASKA  
PUBLIC SERVICE COMMISSION, ON ITS  
OWN MOTION, SEEKING TO ESTABLISH A  
LONG-TERM UNIVERSAL SERVICE  
FUNDING MECHANISM

APPLICATION NO. NUSF-26

**DIRECT TESTIMONY OF**

**Peter B. Copeland**

**Director – Cost and Economic Analysis**

**QWEST**

**August 11, 2004**

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Both Nebraska and federal laws address the need for federal and state universal service mechanisms to be “predictable” and “sufficient”. In order to recover the costs of investing in these areas, facility-based ETCs require sufficient cash flows that provide coverage of operating cost, return on capital for investors, and recovery of depreciation costs. The cash flows must be predictable over the period of time required to recoup these costs. The Nebraska high cost fund is transitioning from an interim fund to a permanent fund. Initially, Qwest made rate reductions in services that provided support to high cost areas in exchange for Nebraska universal service funds. This was done on a revenue neutral basis. If Qwest’s high cost support is drastically reduced, as proposed in Progression Order No. 5, Qwest’s ability to provide service in the high cost areas may be impaired without access to other revenue replacement sources.

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1 line per year. In order to blunt these financial losses, Qwest faces the hard choice of possibly  
2 increasing its intrastate switched access rates to parity with other Nebraska carriers. Qwest must  
3 also consider other revenue sources to make up the shortfall, such as increases in extended area  
4 service charges and zone charges, as well as the introduction of a state subscriber line charges. In  
5 a support reduction of this magnitude, the Commission will be placing a tremendous and  
6 unreasonable burden on Qwest's customers.

7 My statistical analyses of the SAM demonstrate that there is insufficient explanatory  
8 power for the independent variable (density) for the purpose of estimating cost differences  
9 between support areas between 0 and 7 households per square mile of density. This data  
10 indicates that factors other than density play a significant role in determining cost for this range  
11 of density. Therefore, the evidence does not support differences in costs for support areas  
12 between zero and seven households per square mile. As a result, the evidence does not support  
13 different distribution allocations for households between zero and seven households per square  
14 mile.

15 Qwest objects to the transition mechanism for three major reasons: 1) The transition  
16 mechanism is not predictable due to the use of over-earnings redistribution; 2) The transition  
17 mechanism's impact on customers is too great due to the SAM backstop reduction limit of \$5 per  
18 residential line per month on an annual basis – twelve times as fast as contemplated in the Order;  
19 and 3) The transition mechanism is overly complex.

20 Qwest proposes using a straight-line transition path, using existing and future surpluses in  
21 the fund, together with over-earning redistributions, to fund the transition. The minimum period  
22 for a transition of this magnitude should be five years, but longer is preferable as recognized in

1 the FCC's non-rural hold-harmless transition reduction limit of \$1.00 in average monthly per line  
2 support per year.

3 Qwest supports Progression Order No. 5 "First Proposal" for porting support to  
4 competing NETCs using support averaged in the same manner as de-averaged UNE loop rates.

5 **IDENTIFICATION OF WITNESS**

6  
7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is Peter B. Copeland and my business address is 1801 California Street,  
9 Denver, Colorado 80202. I am employed by Qwest Services Corporation ("Qwest") as  
10 Director, Cost and Economic Analysis in the Public Policy organization.

11  
12 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

13 A. I have been employed by Qwest or its predecessor, U S WEST, for the past 23 years. My  
14 experience with Qwest and Bellcore includes responsibility for the development of  
15 wholesale and retail cost studies, models of the local exchange network, universal service  
16 advocacy, jurisdictional separations, rate development, earnings management, and public  
17 affairs. Additionally, I was one of the primary developers of the Benchmark Cost Proxy  
18 Model (BCPM).

19  
20 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

21 A. I have a Bachelor of Arts degree from Brown University in Urban Studies and a Master of  
22 Public Administration from the University of Colorado.

23  
24 **Q. WHAT ARE YOUR CURRENT JOB DUTIES?**

1 A. My current responsibilities include the supervision and development of all wholesale and  
2 retail forward-looking cost studies for Qwest. Additionally, my group provides economic  
3 analysis for regulatory proceedings.  
4

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION OR**  
6 **OTHER SIMILAR STATE COMMISSIONS?**

7 A. Yes, I previously testified before this Commission in numerous proceedings including  
8 both cost development and universal service issues. I have also testified in proceedings  
9 in other states, including Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, New  
10 Mexico, North Dakota, Oregon, and Utah, Washington, Wyoming. I have also appeared  
11 as a panel member before the FCC concerning Universal Service.  
12

13 **PURPOSE OF TESTIMONY**

14  
15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. The purpose of my testimony is to address the Commission's Progression Order Number  
17 5 (the "Order no. 5") and the various parties' comments regarding the Order no. 5. My  
18 testimony is focused on three major issues: 1) validity and accuracy of the Fund Support  
19 Allocation Methodology (SAM); 2) the proposed transition mechanisms for moving  
20 from the interim fund to the permanent fund; and 3) calculating support for CLECs  
21 serving through UNE-P. I expand on Qwest's July 28, 2004 comments on these topics.  
22 Additionally, I address the comments of other parties concerning three issues presented in  
23 Order no. 5 regarding: 1) the calculation of the benchmark; 2) addressing unique  
24 circumstances; and 3) the expansion of the transition mechanisms to cover revenue  
25 losses.  
26

**NEBRASKA USF AND STATE AND FEDERAL STATUTE**

**Q. DO NEBRASKA STATUTES AND FEDERAL STATUTES ADDRESS ANY ISSUES CONCERNING STATE UNIVERSAL SERVICE HIGH COST FUNDS?**

A. Yes. Both Nebraska and federal laws address the need for federal and state universal service mechanisms. Section 254(b)(5) of the Federal 1996 Telecommunications Act states, "There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service." Additionally, the Nebraska Revised Statutes § 86-323(5) states that universal service support should be, among other things, "predictable" and "sufficient."

**Q. WHY DO BOTH THE FEDERAL AND STATE STATUTES PRESCRIBE THAT THE STATE AND FEDERAL FUNDS MUST BE SUFFICIENT AND PREDICTABLE?**

A. Providing telecommunications services in high cost areas requires large capital outlays by facility-based ETCs. In order to recover the costs of investing in these areas, facility-based ETCs require sufficient cash flows that provide coverage of operating cost, return on capital for investors, and recovery of depreciation costs. The cash flows must be predictable over the period of time required to recoup these costs. If future cash flows are not predictable or sufficient to fully recover costs, the ETCs' ability to re-invest disappears and its ability to maintain the high cost investment can be diminished, and universal service suffers.

**Q. HOW DO SUFFICIENCY AND PREDICTABILITY RELATE TO NUSF-26?**

1 A. The Nebraska high cost fund is transitioning from an interim fund to a permanent fund.  
2 Initially, Qwest made rate reductions in services that provided support to high cost areas  
3 in exchange for Nebraska universal service funds. This was done on a revenue neutral  
4 basis. If Qwest's high cost support is drastically reduced, as proposed in Progression  
5 Order No. 5, Qwest's ability to provide service in the high cost areas may be impaired  
6 without access to other revenue replacement sources.

7  
8 **VALIDITY OF THE SAM**

9  
10 **Q. HOW CAN THE VALIDITY OF THE SUPPORT ALLOCATION**  
11 **METHODOLOGY (SAM) BE ASSESSED?**

12 A. I have examined two means of assessing the validity of the SAM. First, SAM can be  
13 assessed from a public interest standpoint. Second, the SAM can be assessed based on  
14 its statistical validity.

15  
16 **Q. PLEASE DESCRIBE HOW TO ASSESS THE PUBLIC INTEREST IMPACTS**  
17 **OF THE SAM.**

18 A. The public interest should be based on the effects of changes in support levels based on  
19 the shift from the interim (revenue-neutral rate reduction) fund to the forward-looking  
20 cost/density – based permanent fund. The proposed SAM results in Qwest losing \$5  
21 per line per month support for every residential line it serves in the first year of  
22 transition (absent the speculative over-earnings redistribution) – despite guidance in  
23 Progression Order No. 5 that reductions be limited to \$5 per line per *year*. Regardless  
24 of the comments of NICE-BCS, even “huge, non-rural LECs”<sup>1</sup> cannot absorb that  
25 magnitude of revenue reduction (\$5 per line per month \*12\*257,000 = \$15.4M in year

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<sup>1</sup> NICE-BCS comments at page 3.  
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1 one) without repercussions to its operations. In order to blunt these financial losses,  
2 Qwest faces the hard choice of possibly increasing its intrastate switched access rates to  
3 parity with other Nebraska carriers. Qwest must also consider other revenue sources to  
4 make up the shortfall, such as increases in extended area service charges and zone  
5 charges, as well as the introduction of state subscriber line charges. In a support  
6 reduction of this magnitude, the Commission will be placing a tremendous and  
7 unreasonable burden on Qwest's customers. This rapid transition and its subsequent  
8 customer impact cannot be in the public interest.

9  
10 **Q. CAN YOU SUGGEST ANY COMMON SENSE TESTS THAT DEMONSTRATE**  
11 **A LACK OF STATISTICAL VALIDITY OF THE SAM?**

12 A. Yes. Assume that Telephone Company X was earning less than a 12 percent rate of  
13 return on its investment and reduced its intrastate access and business rates on a  
14 revenue neutral basis in exchange for NUSF support. Further assume that the NUSF is  
15 now changing its support calculation method to a forward-looking cost/density model.  
16 Today, Telephone Company X operates in highly competitive environment and it has  
17 every incentive to be efficient. If the newly calculated forward-looking fund provides  
18 substantially less support for Telephone Company X (which continues to earn less than  
19 12 percent on investment), then there is a disconnect between the real world costs of  
20 running an efficient network and the forward-looking fund calculation. In such a case,  
21 the statistical validity of the support calculation is questionable.

22  
23 **Q. CAN YOU BACK UP YOUR STATEMENT WITH A STATISTICAL ANALYSIS**  
24 **THAT SHOWS A WEAK RELATIONSHIP?**

25 A. Yes I can.

1 **Q. BEFORE YOU PROVIDE DETAILS OF YOUR STATISTICAL ANALYSIS,**  
2 **CAN YOU GIVE A BRIEF DESCRIPTION OF THE REGRESSION METHODS**  
3 **USED BY THE SAM?**

4 A. Surely. I have examined the methodology that the SAM uses to estimate cost based on  
5 density. Essentially, the SAM uses three separate linear regression equations to estimate  
6 costs based on density of support areas in Nebraska. Each regression equation relates to a  
7 specific density range. Based on an analysis performed by the Commission staff, the  
8 SAM uses the following density ranges: 0 to 4.5 households per square mile; 4.5 to 34  
9 households per square mile and greater than 34 households per square mile. Only the  
10 first two regression equations play a role in the fund allocation because nearly 100  
11 percent of the support is allocated to support areas with less than 13 households per  
12 square mile and over 98 percent of the support is allocated to support areas of less than 7  
13 households per square mile.<sup>2</sup> Therefore, only the regression results over a very limited  
14 range are used in the SAM for support calculations.

15  
16 **Q. PLEASE DESCRIBE YOUR STATISTICAL ANALYSES OF THE SAM.**

17 A. The R-square value presented in the SAM is misleading concerning the accuracy of the  
18 three individual regression analyses utilized in the methodology. Exhibits PBC-1A and  
19 PBC-1B of my testimony provide a narrative explanation of the appropriate statistical  
20 tests and back-up Excel workpapers that demonstrates the low statistical validity of the  
21 SAM. In fact, the only relevant portion of the regression analysis involves the 0 to 7  
22 households per square mile density groups because 98 percent of the support is targeted  
23 to those support areas. I calculated the coefficient of determination for density and  
24 original line cost which yields a result of 49 percent, which indicates a moderate,  
25 correlation between the two variables, where less than one-half of the predicted cost can

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<sup>2</sup> Order No. 5 at paragraph 48.  
01-617075.1/8

1 be explained by changes in density. This coefficient of determination indicates that there  
2 are other important variables that contribute to changes in cost besides density in these  
3 areas.

4  
5 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM YOUR STATISTICAL**  
6 **ANALYSIS?**

7 A. The statistical analyses demonstrate that there is insufficient explanatory power for the  
8 independent variable (density) for the purpose of estimating cost differences between  
9 support areas between 0 and 7 households per square mile of density. This data indicates  
10 that factors other than density play a significant role in determining cost for this range of  
11 density. Therefore, the evidence does not support differences in costs for support areas  
12 between zero and seven households per square mile. As a result, the evidence does not  
13 support different distribution allocations for households between zero and seven  
14 households per square mile.

15  
16 **Q. A NUMBER OF PARTIES, INCLUDING QWEST HAVE MADE COMMENTS**  
17 **SUPPORTING THE USE OF DENSITY TO DETERMINE COST. HOW DO**  
18 **YOU RECONCILE THESE STATEMENTS?**

19 A. Density provides a strong correlation to cost over a broader range of both densities and  
20 costs when examining more discrete physical areas, such as distribution areas, rather than  
21 NUSF support areas. The NUSF support areas are aggregations of multiple distribution  
22 areas, which can distort the density/line cost relationship that exists for smaller areas.  
23 Since density does not provide sufficient explanatory power to determine cost differences  
24 in this data range, the Commission should look at alternative methods for the SAM.

1   **Q.     WHAT ARE THE POSSIBLE REASONS FOR THE LACK OF EXPLANATORY**  
2         **POWER OF THE INDEPENDENT VARIABLE OF DENSITY FOR THIS**  
3         **RANGE OF DATA?**

4   A.   There are two major areas that can be explored concerning the lack of the relationship  
5         between density and cost in the 0 to 7 households per square mile data range. First, in the  
6         limited range of density, distance or other factors might play a more significant role in the  
7         determination of cost. For example, two support areas with a density of two lines per  
8         square mile look the same to the SAM, however, one support area may be two miles from  
9         the central office and the other 50 miles from the central office. The support area that is  
10        50 miles from the central office will be more costly to serve than the support area two  
11        miles from the central office. The SAM cannot accommodate such differences. This  
12        becomes a more complex issue when one considers a case of a support area with a  
13        density of seven lines per square miles that is 50 miles from the central office compared  
14        to a support area with a density of two lines per square mile that is two miles from the  
15        central office. The SAM cannot accurately determine that the support area with density  
16        of two lines per square mile is more costly than the support area with a density of seven  
17        lines per square mile in this example. But the SAM is making that relative determination.

18  
19        Second, as Qwest pointed out in its July 28<sup>th</sup> comments, the mapping of the 2000 Census  
20        household data and BCPM grids to the support areas may contain mismatches between  
21        the physical areas that the cost represents and the physical areas that the households  
22        represent. Thus, an incorrect density could be improperly assigned to a cost for a support  
23        area. Additionally, a combination of these two problems could cause the low explanatory  
24        value for density in this range.  
25

1     **Q.     DO YOU HAVE ANY SUGGESTED ALTERNATIVES AT THIS TIME?**

2     A.    I do not have alternatives that have been fully explored. I plan to use the time between  
3           the testimony and the hearings to examine some alternatives that can be easily  
4           implemented and are based on the data produced by the Commission staff in this docket.  
5

6                                 **TRANSITION TO REGRESSION BASED FUND**

7  
8     **Q.    PLEASE PROVIDE A BRIEF DESCRIPTION OF THE TRANSITION**  
9       **MECHANISMS IN THE SAM?**

10    A.    The SAM includes a complex multi-step process to determine the transitional support  
11           level. The transition starts with September 2004 NUSF payments and compares it to  
12           the Model Methodology support after adjusting for a 12 percent limit on return on  
13           investment. Next the transition determines if NUSF-7 grants and the Model  
14           Methodology cause a carrier to exceed the return cap or the current NUSF support  
15           level. At this point, the transition mechanism calculates the reduction in support that is  
16           subject to the “Per-Line Backstop”. The purpose of the “Per-Line Backstop” is to limit  
17           the amount that NUSF support can be reduced in terms of residential lines on a monthly  
18           basis. Progression Order No. 5 indicates a limit of \$5 per line per year. The SAM  
19           backstop merely limits the reduction to \$5 per residential line per month on an annual  
20           basis – twelve times as fast as contemplated in the Order. The final phase of the  
21           transition mechanism is the over-earnings redistribution. The over-earnings  
22           redistribution identifies support that was designated for ETCs based on the model  
23           methodology, but not distributed due to the 12 percent return on investment limit. In  
24           these calculations, the support is redistributed through an iterative process to carriers  
25           experiencing a reduction in support in moving from the interim fund to the permanent  
26           fund.  
27

1 **Q. WHY DOES QWEST OBJECT TO THE TRANSITION MECHANISM**  
2 **UTILIZED IN THE SAM?**

3 A. Qwest objects to the transition mechanism for three major reasons:

- 4 1.The transition mechanism is not predictable;
- 5 2.The transition mechanism's impact on customers is too great; and
- 6 3.The transition mechanism is overly complex.

7  
8 First, contrary to Nebraska and Federal statutes, the transition mechanism is not  
9 predictable. Up to 25 percent of the transitional support for which Qwest is eligible is  
10 dependent on the earnings status of other companies receiving NUSF. Thus,  
11 investment and operation decisions of companies beyond the immediate control of the  
12 Commission and the fund administrator ultimately determine the amount of transitional  
13 funding that Qwest will receive.

14  
15 Second, the public interest is poorly served by the current transition mechanism. The  
16 SAM currently proposes that Qwest's NUSF support decrease by over \$25M or \$6.69  
17 per month for every residential line Qwest serves. The SAM "Per Line Backstop"  
18 methodology currently allows a decrease of \$15M in the first year of transition, which  
19 as noted above is far faster than provided in Progression Order No. 5. This is far too  
20 great a reduction in support, even if one could count on the over-earnings redistribution  
21 mechanism. The public interest and the prevention of undue customer hardship should  
22 be the Commission's major concern in determining the transition period.

23  
24 Third, the transition calculations are far more complex than necessary and add to the  
25 unpredictability of the transition mechanism. Since the Commission wishes to move

1 each carrier's NUSF support from point A to point B, why not define simple steps to  
2 move the distance.

3  
4 **Q. WHAT TRANSITION MECHANISM DOES QWEST ADVOCATE FOR NUSF?**

5 A. Qwest proposes using a straight-line transition path, using existing and future surpluses  
6 in the fund, together with over-earning redistributions, to fund the transition. The  
7 minimum period for a transition of this magnitude should be five years, but longer is  
8 preferable. Even a six-year transition period would involve the equivalent of over a \$1  
9 per month increase per residence line annually. In its Federal universal service docket  
10 for non-rural carriers the FCC found, "In this Thirteenth Report and Order, we adopt  
11 the recommendations of the Federal-State Joint Board on Universal Service (Joint  
12 Board) for phasing down the interim hold-harmless provision of the forward-looking  
13 high-cost universal service support mechanism for non-rural carriers.<sup>1</sup> Specifically, we  
14 adopt measures to phase down interim hold-harmless support, excluding Long-Term  
15 Support (LTS),<sup>1</sup> through \$1.00 reductions in average monthly, per-line support  
16 beginning January 1, 2001, and every year thereafter until there is no more interim hold-  
17 harmless support."<sup>3</sup> Therefore, a longer transition period will make this difficult  
18 transition to lower levels of NUSF less burdensome for Qwest and its customers.

19  
20 **Q. IN THE CURRENT ENVIRONMENT, DOES QWEST HAVE THE ABILITY TO**  
21 **INCREASE ITS RESIDENTIAL RATES TO RECOVER LOST NUSF?**

22 A. No. Qwest faces extremely rigorous competition for both its residential and business  
23 customers. For example, in Omaha, carriers other than Qwest now serve the majority  
24 of customers. Therefore, if Qwest raises its prices, other alternatives are readily

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<sup>3</sup>CC Docket 96-45, Thirteenth Report and Order and Notice of Proposed Rulemaking, Released Dec. 8, 2000, at Paragraph 1  
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1 available to its customers and many customers would change carriers, rather than  
2 paying increased rates to Qwest. The competitive constraints on pricing, combined  
3 with massive reductions in Qwest's support, threaten Qwest's ability to fully provide  
4 universal service. Therefore, at least a five year transition period is needed for Qwest to  
5 adjust to the decreased revenue levels brought about by NUSF reductions.

6  
7 **CALCULATING SUPPORT FOR CLECS USING UNE-P**

8 **Q. WHICH OF THE TWO PROPOSALS FROM PROGRESSION ORDER NO. 5**  
9 **CONCERNING THE PROVISION OF NUSF TO CLECS SERVING THROUGH**  
10 **UNE-P DOES QWEST SUPPORT?**

11 A. Qwest supports the "First Proposal".

12  
13 **Q. WHY DOES QWEST SUPPORT THE FIRST PROPOSAL?**

14 A. There are three major reasons for supporting the "First Proposal". First, porting support  
15 to competing NETCs using support averaged in the same manner as de-averaged UNE  
16 loop rates keeps the cost of the UNE-loop aligned with the available support. This  
17 methodology reduces potential arbitrage situations and puts the NETCs on comparable  
18 cost footing with Qwest.

19  
20 Second, the FCC rules require that UNE loop rates be de-averaged to at least three cost-  
21 based zones. Under the "Second Proposal" the zone 1 UNE loop rate would be applied to  
22 UNE loops in all zones. This action violates the FCC rules<sup>4</sup> that there be at least three

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<sup>4</sup> 47 CFR 51.507(f).  
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1 zones and that the rates be cost-based. A UNE loop zone 1 rate applied to zone 2 or 3 is  
2 not a cost-based rate.  
3

4 Third, applying UNE loop zone 1 rates to UNE loops in zones 2 and 3 causes further  
5 revenue loss for Qwest, beyond the large support reductions the Commission is already  
6 proposing in its NUSF transition to a model-based methodology. The UNE loop rate  
7 reductions apply only to Qwest and cannot be justified on the basis of “administrative  
8 efficiency”<sup>5</sup>. The adoption of the “Second Proposal” produces harm to Qwest which  
9 outweighs limited gains in administrative efficiency for the fund.  
10

#### 11 **OTHER ISSUES**

12 **Q. DO YOU AGREE WITH THE RURAL INDEPENDENT COMPANIES THAT**  
13 **THE BENCHMARK SHOULD INCLUDE AN ADJUSTMENT FOR**  
14 **CONTRIBUTION THAT INTRALATA TOLL REVENUES MAKE TO THE**  
15 **PROVISION OF BASIC LOCAL SERVICE?**

16 **A.** No. Given the super-competitive nature of toll service, I don’t see how there can be any  
17 contribution from toll service revenues to basic local service. It would be illogical to  
18 attempt to equate such a completely competitive service with access services, which are  
19 by nature monopoly services. Nebraska consumers can choose from hundreds of long  
20 distance carriers, but a long distance carrier that needs to terminate a call to a particular  
21 end user has no choice, and must complete the call through the end user’s local carrier.

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<sup>5</sup> The “First Proposal” described in Progression Order No. 5 is currently being utilized to distribute NUSF to NETCs serving through UNE-P. Therefore, the NUSF does not face increased costs of administration in its continued use.  
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1 Therefore, there should be no adjustment of the benchmark for intraLATA toll  
2 revenues.

3  
4 **Q. DO YOU AGREE WITH CLARK TELECOMMUNICATIONS THAT THERE**  
5 **SHOULD BE MODIFICATIONS TO THE SAM TO ACCOMMODATE**  
6 **EXTRAORDINARY COSTS BORNE BY SMALL COMPANIES?**

7 A. No. Given the problems with the SAM as currently proposed, complicating the model  
8 further in an attempt to recognize “unique circumstances” would not produce benefits  
9 to the public interest. The rural companies currently have a federal high cost switching  
10 support mechanism available to provide support for the additional costs associated with  
11 small rural companies. Clark needs to demonstrate the shortcomings of the federal fund  
12 designed to meet this need with the FCC prior to approaching the NUSF for support.

13  
14 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE RURAL**  
15 **INDEPENDENT COMPANIES PROPOSAL THAT THE PER-LINE BACKSTOP**  
16 **AND OER TRANSITIONAL SUPPORT MECHANISMS EXPAND THEIR**  
17 **ELIGIBILITY TO INCLUDE REVENUE DECREASES FROM ALL REVENUE**  
18 **SOURCES THAT SUPPORT THE PROVISION OF UNIVERSAL SERVICE,**  
19 **SUCH AS BASIC LOCAL SERVICE REVENUES, ACCESS REVENUES, AND**  
20 **UNIVERSAL SERVICE SUPPORT?**

21 A. This proposal fails to recognize important realities of the marketplace. This industry is  
22 undergoing tremendous structural changes, including technology substitution, facilities-

1 based competition, inter-modal competition, etc. The rural independent companies  
2 cannot put the world back the way it was by having the Commission place a surcharge  
3 on all intrastate telecommunications in order to keep their revenues whole. If Qwest  
4 came knocking on the door with such a request, the NUSF surcharge would need to  
5 double everyone's local rates in order to make up for its lost basic local revenues and  
6 the NUSF fund size would be prohibitively large. The Commission should decline to  
7 accept this suggestion.

8  
9 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE OER CALCULATIONS?**

10 A. Given the multi-jurisdictional nature of federal and state USF, it is important that  
11 companies carefully follow the CFR Part 36 Jurisdictional Separations rules when  
12 completing their OER calculations for this Commission. This should ensure that the  
13 OER is properly calculated.

14  
15 **CONCLUSION**

16 **Q. WHAT ARE YOUR CONCLUDING COMMENTS?**

17 A. In my comments, I have demonstrated that the proposed methodology used by the SAM  
18 is not statistically valid and that the methodology used to distribute the NUSF needs to  
19 be based on a more equitable methodology that is supported by both the public interest  
20 considerations and supporting data. Based on my analysis the fund distribution  
21 allocations should not differ for households between the densities of zero and seven  
22 households per square mile.

1

2

3    **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

4    A.   Yes.

RESPECTFULLY SUBMITTED,  
QWEST CORPORATION

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